

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Update on State Legislation

ITEM NUMBER: 8a

ATTACHMENT(S): 4

ACTION: X

MEETING DATE: June 4, 1998

INFORMATION: _____

PRESENTER: Ms. DuCray-Morrill

State Legislation

Summary

Staff has prepared the attached analyses and recommended positions on the following measures for the Board's consideration:

<u>Bill Number</u>	<u>Author</u>	<u>Subject</u>
AB-2616	Prenter	Increased Age Factors
SB-1528	Schiff	Health Insurance for STRS Members
SB-2224	Lee	Return to Unmodified

Budget Update

Summary

The budget hearings for the 1998-99 budget has commenced. STRS staff appeared before both Senate and Assembly Budget Subcommittees. As expected, the Subcommittee members were interested in the funding status of STRS. As reported to the Board at the March, 1998, Board meeting, the System has a \$1.8 billion unfunded actuarial obligation with an expected three year amortization period. It is the opinion of the Legislative Analyst that, should STRS conduct a valuation at this time, it would conclude that STRS is fully funded; therefore, appropriating the Elder Full Funding monies would not be necessary. The consulting actuary has indicated that it is not appropriate to conduct mid-year valuations; therefore, would recommend opposing any request to do so.

The Legislative Analyst's Office (LAO) instead recommended that the System be requested to perform a valuation for June 30, 1998 instead of waiting until June 30, 1999 when the next scheduled valuation is to be conducted. The LAO further recommended that, pending the results of the valuation, the Elder Full Funding contributions be appropriated but not transferred until the valuation is completed. At that time, if it is

determined that an unfunded actuarial obligation exists, the EFF appropriation can be transferred up to the amount of the unfunded obligation or the scheduled appropriation, whichever is less. The Teachers' Retirement Fund would also be paid any lost interest resulting from the delayed transfer. In addition, a \$50,000 appropriation for the valuation was recommended.

The Assembly Budget Subcommittee took no action on the LAO's recommendation. The Senate Budget Subcommittee, however, appropriated the \$50,000 for the valuation, although their action does not direct a valuation. The issue must now, however, go to conference committee for reconciliation.

There were no issues raised relative to the Supplemental Benefit Maintenance Account. (SBMA)

As you recall the General Fund is entitled to a credit of \$320 million in the 1998-99 budget for the State's share of the proceeds from the sale of the Elk Hills Naval Petroleum Reserve pursuant to SB-1026, Statutes of 1997. That leaves a General Fund appropriation of \$84 million due STRS effective July 1, 1998. STRS will be reimbursed the \$320 million from the Federal budget process. Those efforts are proceeding at this time.

The Governor's May Revise issues were released on May 14, 1998. There were no changes impacting STRS; therefore, the Governor Budget proposes to fully fund both EFF and SBMA.

Recommendation

The Staff recommends the Board take no action at this time to deviate from the current schedule for conducting STRS actuarial valuations. Based on this schedule, the next valuation will be conducted on June 30, 1999 data and will be presented to the Board approximately March, 2000. The Board could choose to modify the current schedule at a future date if that action was deemed necessary.

Status of Board Sponsored Legislation for 1998

Ms. DuCray-Morrill will provide a verbal update at the meeting on the current status of Board-sponsored legislation.

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Assembly Bill 2616,

Assembly Member Prenter (As Amended 05/14/98)

Position:

Co-sponsor, if funded (Staff Recommendation)

Proponents:

CTA (Sponsor), ACSA CFT, CRTA, UTLA

Opponents:

Unknown

SUMMARY

AB-2616 would incrementally increase the benefit factor of 2 percent at age 60 to 2.418 percent at age 63.

HISTORY

AB-2512 (Epple, 1994), vetoed by the Governor, would have prescribed an increased formula for certain members who retired after June 30, 1995, were over normal retirement age, and had a minimum of 20 years of credited service. The bill proposed a maximum percentage of 2.5 of final compensation per year of credited service at age 65.

AB-1074 (Epple, 1992), vetoed by the Governor, would have increased the age factor from 2 percent to 2.5 percent of final compensation for STRS members who worked until age 65 and had at least 20 years of service.

CURRENT PRACTICE

The Teachers' Retirement Law (TRL) prescribes a 2 percent at age 60 age factor. The earliest age at which a teacher can retire from service with a monthly benefit under the STRS Defined Benefit (DB) plan, is age 50, with 30 years of service credit. A standard early retirement is available, at age 55, providing the applicant has at least five years of credited service.

Under current law, the age factor ranges from 1.5 percent with retirement at age 55, up to a maximum of 2 percent at age 60. There is no increase in the retirement factor, however, for teachers who continue teaching beyond the age of 60.

The formula utilized for calculating an unmodified retirement allowance includes three elements; a retiree's service credit, age factor, and final compensation. This formula

results in a retiree's 'Unmodified Allowance.' In addition, each year retirees receive an improvement adjustment equal to 2 percent of the initial allowance. In addition to the annual improvement, two types of post-retirement benefit allowances support the purchasing power of a retiree; an ad hoc grant resulting from specific legislation, and/or annual supplemental benefit payments, derived from direct state contributions or revenue from the use of school lands.

DISCUSSION

AB-2616 provides that a member who has attained age 60 $\frac{1}{4}$ years or more and who retires for service after January 1, 1999, will receive a retirement allowance consisting of an annual allowance, payable in monthly installments upon retirement, equal to the percentage of the final compensation at the member's age at retirement, multiplied by each year of credited service, as follows:

60 $\frac{1}{4}$	2.034
60 $\frac{1}{2}$	2.068
60 $\frac{3}{4}$	2.100
61	2.134
61 $\frac{1}{4}$	2.168
61 $\frac{1}{2}$	2.202
61 $\frac{3}{4}$	2.238
62	2.272
62 $\frac{1}{4}$	2.308
62 $\frac{1}{2}$	2.346
62 $\frac{3}{4}$	2.382
63 and over	2.418

As previously discussed with the Board, the findings of the Retirement Plan Study indicate that the benefit provided by the DB plan may not provide an adequate replacement ratio according to a Georgia State University Study. The benefit increase included in AB-2616 will provide some measure of increase toward achieving a higher replacement ratio.

An adjustment of the STRS retirement age factor is viewed by many as an important component in addressing the serious problem of the shortage of credentialed teachers in California.

With the expansion of the class size reduction program, school districts may be forced into hiring inexperienced, noncredentialed individuals as teachers. The proposed change in the STRS benefits may offer a longevity incentive and help retain experienced, effective teachers, thereby helping alleviate the teacher shortage.

Based upon data presented by the actuary in the June 1997 valuation, an estimated 14,000 members are currently active, age 60 to 64 and 11 months with four or more years of service credit. An estimated 5,248 are currently active age 65 and over with four or more years of credited service, for a total of 19,298.

The bill does not in its current form, contain a funding source. The bill should be amended to provide funding from either increased employer contributions or a General Fund appropriation.

FISCAL IMPACT

Program - The bill would result in a total contribution rate increase of 2.228 percent, or \$364,278,000 annually, with the unfunded obligation component amortized over 30 years.

Administrative - Absorbable within existing resources

START Project costs are undetermined at this time

RECOMMENDATION

Staff recommends the Board adopt a Co-sponsor, if funded position on AB-2616. The benefit increase proposed in this bill would provide a measure of increase toward achieving a higher replacement ratio for STRS retirees and would act as an important component of addressing the shortage of credentialed teachers in California.

Senate Bill 1528,

Senator Schiff (Introduced 2/10/98)

Position:

Co-sponsor (Staff Recommendation)
Previous Position: Support , if Amended

Proponents:

**CRTA (Sponsor), ACSA, AFSCME, CTA, FACCC,
STRS**

Opponents:

Unknown

SUMMARY

SB-1528 would authorize STRS to offer health, vision, and dental insurance benefits to STRS members, beneficiaries, children, and dependent parents.

HISTORY

STRS members hired on and after April 1, 1986, are required by federal law to be covered by Medicare. Chapter 1006, Statutes of 1989 (AB-265, Elder) was enacted to permit school districts to offer Medicare coverage to employees in STRS-covered positions who were hired prior to April 1986. The districts must file an application through the Public Employees' Retirement System (PERS) to modify the master state agreement for Medicare coverage.

Chapter 991, Statutes of 1985 (AB-528, Elder) required STRS employers who provided health insurance to permit enrollment of STRS retirees in district health plans, under certain circumstances. However, the retirees could be placed in a separate "pool" from active members and may be required to pay the entire insurance premiums.

Although school employers may contract with PERS under the Public Employees' Medical and Hospital Care Act (PEMHCA) for health benefits for school district employees, PERS requires that active and retired members be in the same pool. Efforts to cover only STRS retirees under PEMHCA have been unsuccessful because of the estimated adverse impact to the claims experience of the PEMHCA program.

SB-1528 is one of a succession of STRS health care related bills introduced over the years. SB-1528 is basically a reintroduction of SB-471 (Dills 1995) which failed passage from the Assembly policy committee. SB-192 (Dills 1994), which would have allowed STRS to offer health benefits to active and retired STRS members, was vetoed by the Governor.

CURRENT PRACTICE

There is no statewide health care program for STRS' active or retired members. Health care coverage varies greatly and is provided by school district employers on a district-by-district basis, as negotiated in agreements with employee bargaining representatives. Only a few districts offer vested health insurance benefits to retired STRS members. Some districts will make these benefits available, but only until the members reach the age of 65. Many districts provide neither contributions nor benefits to retired employees except to offer them premiums. The health care issue for these members is further compounded because the majority of retired STRS members are not eligible for either Social Security or Medicare coverage.

The recently enacted federal Balanced Budget Act of 1997, effective January 1, 1998, allows certain retired members of a local or statewide governmental plan to qualify for relief from paying premiums for Medicare Part A coverage under specified conditions. To qualify, a member must have been hired before April 1986 and not have participated in Medicare as an active employee.

DISCUSSION

As written, SB-1528 would authorize STRS to offer or contract for health, vision, and dental insurance for active and retired members, beneficiaries, children, and dependent parents of members. The language in the bill is identical to SB-471/1995.

In the Governor's veto message of SB-192/1992, he cited reasons why, in his opinion, STRS should not offer health care benefits. The following are staff's responses to these arguments:

1. STRS' primary responsibility is to provide "retirement program services to local school employees" and the administration of a health benefits program is unrelated to STRS' mission. In the past, the Department of Finance has also argued that health benefit issues are not related to STRS' mission.

The lack of access to affordable health benefit coverage for many retired teachers in California is alarming. Staff has consistently presented testimony that the System views health benefits coverage as an integral part of a secure retirement. The System's commitment to "lifetime security and service" for the membership reflects this view that STRS must serve all members from the beginning of their careers through retirement. Because health care costs threaten members' economic security, it is in their best interests that the System pursue and identify more feasible health benefit options.

In addition, STRS' view of its role and responsibility to all its members is supported by federal law which grants public retirement systems authority to provide health benefits

for its retired members. Internal Revenue Code (IRC) section 401(h) provides that a governmental plan may provide retiree health benefits subject to the conditions and restrictions set forth in the section. Basically, it requires that health benefits must be subordinate to the retirement benefits administered. Furthermore, Section 401(h) allows plans to fund all or a portion of the retiree's health benefits with "excess" System assets. Many state retirement plans currently offer health benefit programs in this manner.

2. STRS members should be able to obtain health benefits either through their school employers or through the Public Employees Medical and Hospital Care Act program offered by PERS.

As previously stated, for retired STRS members to be covered under PERS, they would be required to be in the same pool as the other PEMHCA members. There have been numerous efforts to cover retirees under PEMHCA but these efforts have been unsuccessful because of the estimated adverse impact to the claims experience of the program.

SB-1528 is intended to provide STRS with the ability to implement a program determined to be the most feasible. For example, allowing employers to contract for health benefits for active STRS members only, retired members only, or both active and retired members. In addition, SB-1528 would allow retired members to contract directly on an individual basis if their former employer did not offer the benefit.

FISCAL IMPACT

SB-1528 would not result in any program costs because the health insurance could not be considered a vested benefit or part of the current plan benefit structure. The bill also specifies that the System must recover its administrative costs from the insurance premiums of those participating in the program.

Staff has requested that SB-1528 include \$200,000 appropriation to enable STRS to undertake a study to develop a comprehensive proposal for establishment of a health benefits program for retired STRS members. The sponsor of the bill has agreed to amend the bill to provide for this appropriation.

RECOMMENDATION

Co sponsor - (Staff Recommended)

At its April meeting, the Board adopted a Support, if amended position on SB-1528. In light of the sponsor's assurances that the bill will be amended to include a \$200,000 appropriation for a comprehensive STRS health benefits study, staff recommends that the Board adopt a Co-sponsor position.

Senate Bill 2224, **Senator Lee (Introduced 2/20/98)**

Position: **Support , if amended (Staff Recommendation)**
Previous Position: Under Study

Proponents: **CRTA (Sponsor)**

Opponents: **Unknown**

SUMMARY

This bill would provide for the return to an unmodified allowance for certain members who retired prior to 1991 under specified conditions. Funding for the bill would be provided from July 1, 1999 until June 30, 2017 from School lands revenue.

HISTORY

SB-754 (Chapter 911/93) allowed STRS members who retired before January 1, 1991, under Option 2 or Option 3, to elect to change to Option 6 or Option 7 (added by SB-682 Chapter 97/90) during the period of July 1, 1994 through December 31, 1994. The retired member could change options only if the option beneficiary was not deceased at the time of the change in options, the same option beneficiary was named, and the option beneficiary had no known terminal illness. The retirement allowance payable to the retired member after an option change under this bill would be reduced from the current modified allowance.

SB-1658, from the 1996 legislative session, was introduced to allow STRS members who retired under Options 2, 3, 4, or 5 before January 1, 1991 to return to the unmodified allowance amount if the option beneficiary had died before January 1, 1995. SB-1658 was later amended to exclude Option 4 and 5 retired members from eligibility and, ultimately, the bill was amended to require a study to determine the cost and impact to STRS of providing this benefit.

CURRENT PRACTICE

A member who is retired under an option has his or her allowance modified in order to provide a continuing allowance to the specified option beneficiary. The factors used in the modification are determined by the option selected and the ages of the retired member and option beneficiary. Current statutes provide for six options, Options 2, 3, 4, 5, 6, & 7.

Option 6 and Option 7, which were not available prior to January 1, 1991, allow for the retired members' allowance to return to the unmodified amount if the option beneficiary pre-deceases the retired member. Options 2, 3, 4 and 5 do not allow for the retired members' allowance to return to the unmodified amount.

The annual revenues deposited to the Teachers' Retirement Fund (TRF) pursuant to Section 6217.5 of the Public Resources Code are distributed annually, in conjunction with the proceeds of the Supplemental Benefit Maintenance Account (SBMA), in quarterly supplemental payments to provide purchasing power protection of up to 75 percent for those retired members who have seen the purchasing power of their allowances erode below that level.

DISCUSSION

This bill would return the retirement allowance of any retired member to the unmodified allowance subject to all of the following criteria:

1. The member retired prior to January 1, 1991;
2. The member selected Option 2, 3, 4, or 5;
3. The beneficiary of the member died prior to January 1, 1995;
4. The member has not selected a new beneficiary; and,
5. The unmodified allowance is greater than the modified allowance plus the benefit adjustments and the quarterly supplemental payments the retired member is receiving.

There are approximately 2,509 members who would qualify to make this election and have their retirement allowances returned to the unmodified amount. Members who had retired prior to January 1, 1991 and whose option beneficiary was still living had the opportunity to make a similar election in 1994.

The General Fund transfers 2.5 percent of payroll annually to the SBMA to fund purchasing power protection. The revenue received pursuant to Section 6217.5 of the Public Resources Code, in conjunction with the proceeds of the SBMA, fund the 75 percent purchasing power protection provided by the Ruth Q. de Prida Pension Protection Act of 1997 (SB-1026, Chapter 939). If the revenue received pursuant to Section 6217.5 of the Public Resources Code is no longer available to fund purchasing power protection, the supplemental payments will be disbursed solely from the SBMA.

The impact that will have on the long range forecast for funding supplemental payments at 75 percent is minimal as the revenue from the school lands has averaged only \$3 million a year during the same period, 1989/90-1997/98, that the supplemental payments have averaged around \$175 million.

Staff is recommending instead, however, that this bill be funded from the excess normal cost contributions contributed in the 1997-98 fiscal. Approximately \$32 million in excess contributions has been set aside in a reserve account. These contributions resulted from the reduction in the normal cost of STRS effective July 1, 1997. This would leave all purchasing power funding sources intact.

FISCAL IMPACT

Program - The actuary has determined that it would cost approximately \$31,786,000, or .016 percent of payroll over the next 18 years, to provide this benefit. The revenue received from school lands, while not directly tied to payroll, was .0127 percent of payroll this past year.

The annual revenues pursuant to Section 6217.5 of the Public Resources Code fluctuate from year to year. Since the inception of the program, 1984-85, they have ranged from a high of \$10,119,124 to a low of \$1,197,500, with an average over the 14 years of \$4,467,501. If the annual revenue exceeds annual benefit expense there will be no program cost, however, to the extent the revenue falls short of the annual benefit, there will be a program cost. The funding period provided in this bill could be extended, if needed, thereby alleviating any potential underfunding.

Administrative - Minor and absorbable.

RECCOMENDATION

Staff recommends the Board co-sponsor this bill and fund the bill from excess normal cost contribution for the 1997-98 fiscal year.

P - Author (Sponsor), AFSCME, ACS, AHA, ALA, CPFFA, CalPIRG, Phil
Angelides for Treasurer
O - Cal-Tax, CRTA (Unless amended), PERS, The Tobacco Institute

LEGEND OF ABBREVIATIONS

P = PROPONENTS O = OPPONENTS

<u>ABBREVIATION</u>	<u>ORGANIZATION</u>
AALA	Associated Administrators of Los Angeles
ACCCA	Association of California Community College Administrators
ACLU	American Civil Liberties Union
ACS	American Cancer Society
ACSA	Association of California School Administrators
AFSCME	American Association of State, County and Municipal Employees
AFT	American Federation of Teachers
AGENCY	State and Consumer Services Agency
AHA	American Heart Association
ALA	American Lung Association
ALADS	Association for Los Angeles Deputy Sheriffs
ART	Association of Retired Teachers
AGO	Attorney General's Office
BOE	Board of Equalization
BOG	Board of Governors, California Community Colleges
Cal-Tax	California Taxpayers Association
CalPIRG	California Public Interest Group
CASBO	California Association of School Business Officers
CCA	Community College Association
CCAE	California Council for Adult Education
CFA	California Faculty Association
CFT	California Federation of Teachers
CHA	California Heart Association
CPOA	California Peace Officers' Association
CPCA	California Police Chiefs' Association
CPFFA	California Professional Firefighters Association
CRTA	California Retired Teachers Association
CSAC	California Association of Counties
CSBA	California School Boards Association
CSEA	California School Employees Association
CSL	California Senior Legislature
CSU	California State University
CTA	California Teachers Association
DOE	Department of Education
DOF	Department of Finance
DGS	Department of General Services
DPA	Department of Personnel Administration
FACCC	Faculty Association of California Community Colleges
FCPHE	Faculty Coalition for Public Higher Education
FTB	Franchise Tax Board

LEGEND OF ABBREVIATIONS

P = PROPONENTS O = OPPONENTS

<u>ABBREVIATION</u>	<u>ORGANIZATION</u>
FSC	Free Speech Coalition
LADSA	Los Angeles Deputy Sheriffs' Association
LAUSD	Los Angeles Unified School District
MPAA	Motion Picture Association of America, Inc.
OCDE	Orange County Department of Education
PRF	Public Employees Retirement Fund
PERS	Public Employees Retirement System
RPEA	Retired Public Employees Association
RIAA	Recording Industry Association of America
SACRS	State Association of County Retirement Systems
SCDSA	Sacramento County Deputy Sheriffs Association
SBMA	Supplemental Benefit Maintenance Account
SDCOE	San Diego County Office of Education
SEIU	Service Employees International Union
SLC	State Lands Commission
SSC	School Services of California
SSDA	Small School Districts' Association
START	State Teachers' Automation Redesign Team
STRS	State Teachers' Retirement System
TFD	Teachers for Fair Disability
TRB	Teachers' Retirement Board
TRF	Teachers' Retirement Fund
TRL	Teachers' Retirement Law
USERRA	Uniformed Services Employment and Reemployment Rights Act
UTLA	United Teachers Los Angeles

STANDING COMMITTEES OF THE ASSEMBLY/SENATE

Assembly PER&SS	Assembly Public Employees Retirement and Social Security
Senate IR	Senate Industrial Relations